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THE PANAMA CANAL AND TRANSCONTINENTAL RAILROAD RATES

Examination of the official figures published in the *Canal Record* shows that the total cargo tonnage passing through the Panama Canal during the thirteen months from August, 1914, to August, 1915, inclusive, amounted to 6,250,598 tons. This was a small business compared with that anticipated, nor does the diversion of transcontinental freight from rail to water lines appear to have been considerable.¹ Yet the opening of the Canal has produced certain important effects upon transcontinental railway rates which it is the purpose of this paper to describe.

In a general way, the peculiarities of the transcontinental rate system are widely known. It is built upon three prime assump-

¹ One of the large transcontinental carriers reports comparative figures of east-bound business to transcontinental groups in 1914 and 1915 as follows:

Transcontinental Traffic Destined to	1914 (Tons)	1915 (Tons)
Points west of the Mississippi, but not including New Orleans	619,782	660,234
Points east of the Mississippi, including New Orleans, but not including the Atlantic seaboard	476,526	453,608
Atlantic seaboard	372,783	348,399
Total	1,469,091	1,462,331

(Footnote continued on page 954.)

tions: one, that effective water competition exists between the Pacific and the Atlantic seaboard of the United States; the next, that the force of market competition between the great cities of the East justifies a rate from Chicago and the Middle West no greater than that which is quoted from the Atlantic seaboard to Pacific terminals; and the last, that interior points in the far western states are entitled to no better rates direct from the East by rail than they can secure by water from coast to coast, with the addition of a rail haul inland. Rates to the Pacific Coast based on these principles have been fairly low, and where the system has been carried out logically, rates to interior points have been made by combination of terminal rates with the local rate from the Pacific Coast inland. In 1910, for instance, the rate from New York to Sacramento was \$3.00 per 100 pounds, first class. The rate from Sacramento to Reno, Nevada, was \$1.29, and the rate from New York to Reno, intermediate and on the direct line from New York to Sacramento, was \$4.29.

In course of time this system has received certain modifications. In many instances less than the local back has been added to the terminal rate to make the rate to an intermediate destination. The Interstate Commerce Commission found in 1909 that about 16 per cent of the rates to Spokane were the same as the terminal rates to Seattle, 70 per cent were greater by some sum less than the

Other evidence recently submitted to the Interstate Commerce Commission shows losses in the westbound business of the Sunset-Gulf route in 1915 as compared with 1914 as follows:

Article	1914 (Tons)	1915 (Tons)
Iron or steel		
Structural	2,207	858
Wire fencing, nails, etc.	3,239	964
Pipe	734	125
Plate and sheet	5,166	1,211
Oilcloth, linoleum, etc.	207
Canned goods	290	171
Paper	1,904	797
Wire and wire goods	800	101

Yet the business of the sea routes was greater in 1915 than in 1914 in the case of only four of the articles listed above—namely, iron pipe, plates and sheets, oilcloth, and canned goods.

local, and 14 per cent only were built precisely upon the local. A still more important development has been the multiplication of terminal points, and the quotation of a number of rates indifferently to and from terminal and intermediate points, in order to allow interior shippers to get their goods to and from eastern markets in competition with coast towns. These modifications have relieved interior cities of some of the apparent hardships under which they have suffered, but they have provoked attack from those who see in them cases of arbitrary discrimination, as well as from persons who are dissatisfied with the underlying principles involved.

One of the earliest complaints of the transcontinental rate adjustment was made by the city of Spokane in 1892. It was in a case later brought by the same sturdy inland town that the Commission finally attempted to establish a consistent relation between rates from eastern points to Pacific seaboard cities and rates to towns in the western mountain districts. The essence of the Spokane decision was the holding that only real and effective water competition could justify a lower rate from the East to a Pacific terminal than to an intermediate point, and that even where such competition existed, a conservative measure of its influence should be enforced. The Commission here brushed aside the plea of market competition, as applied to the Middle West, and, dividing the country into five zones, numbered from west to east, the fourth zone including New York and the fifth the southeastern section of the United States, it declared that rates from the first four of these zones to intermediate western points should not exceed rates to Pacific terminals by more than the percentages of 0, 7, 15, and 25 per cent. That is to say, rates from Colorado to Reno must not exceed those to San Francisco; rates from New York to Reno might be 25 per cent greater than rates from New York to San Francisco, and rates from points between the Colorado and the New York zones might be 7 or 15 per cent greater to Reno than to San Francisco, as the case might be. No order was made relating to zone five.

This decision became law in June, 1914, just before the opening of the Panama Canal. The westbound tariff 1-N, effective November 15, 1914, contained the necessary readjustment of rates. The

carriers at this time, while reducing rates to intermediate points, yet advanced more of the terminal rates than they cut down. They even canceled a number of commodity rates for less than carload lots, and applied class rates, in the expectation that some increase in revenue would result. Thoroughly alarmed, nevertheless, lest the competition of the Canal should deprive them altogether of the carriage of certain important articles, or cause ruinous and unnecessary sacrifices in earnings at intermediate points, the railroads asked the Commission to postpone the date on which its ruling should take effect until January 1, 1915, in respect to a list of goods designated as Schedule C, and then later requested that the ruling be permanently suspended so far as these articles were concerned. Schedule C contained generally goods most likely to move by water: canned goods, coal, dry goods, hardware, iron and steel, oil, paint, paper, and the like. The railroads alleged that the water carriers, since the opening of the Canal, had materially reduced their rates, shortened the time for transportation, increased the frequency of their sailings, and added both to their tonnage capacity and to the actual tonnage obtained. The railroads therefore desired permission to cut rates to terminal cities without reducing those to intermediate points.

It is undeniable that there was force in the argument as it was presented at this time. A great commercial advantage, applying to one class of cities and not to another, was clamoring for recognition. The Canal had cut the distance between New York and San Francisco more than 50 per cent. It had made reductions in water rates possible. It had improved service. Why should not its effects be recognized? And if this be conceded, what sound reason was there for preventing the railroads from meeting the rates charged by water? If it was argued that competition with the Canal, a government enterprise, should not be encouraged, it could be recalled that the Pacific railroads themselves were, in a measure, government enterprises. If the proposed low railroad rates to terminals were thought of as unremunerative, it could be shown that they covered out-of-pocket cost. Not even the belief that the entrance of the railroads into the competition at the terminal point made the permanence of the low competitive rate and the continuance of the discrimination against the interior point

more likely, had much weight in the case of seacoast cities so well served by vessels as San Francisco and San Diego.

Moved by these considerations, the Commission authorized the transcontinental carriers to reduce rates to Pacific terminals in competition with the Canal, and to charge rates to intermediate points which should not conform to the limits of 0, 7, 15, and 25 per cent laid down before. It imposed, however, three limitations upon its permission:

1. Relief was granted only on low-grade commodities named, including such articles as canned goods, hardware, dry goods, oil, paper, and the like, and only on goods which did not pay from the Missouri River a rate exceeding 75 cents per 100 pounds by the carload, or \$1.50 or \$1.25 per 100 pounds in less than carload lots, according as the articles were rated first and second class, or third class and lower.

2. Relief was granted only on shipments to points at which the Atlantic-Pacific steamboats delivered their freight. On the Pacific side these points were San Diego, Wilmington, East Wilmington, San Pedro, East San Pedro, San Francisco, and Oakland, California; Portland and Astoria, Oregon, Tacoma, Seattle, Aberdeen, Hoquiam, Cosmopolis, Everett, Bellingham, and South Bellingham, Washington; and Vancouver, British Columbia.

These two limitations were strictly in line with the rulings of the Commission in earlier cases.

3. The third matter had reference to rates to the interior. The Commission divided interior cities into two groups.

The first group included cities so far removed from terminals that the combination on a terminal was not likely to make lower than the direct rate. To these cities, it will be remembered, the 7, 15, and 25 per cent rates applied. The Commission now proposed the use of fixed arbitraries of 15 cents, 25 cents, and 35 cents, instead of percentage relations. To show the difference in practice, an example will suffice. The old rate on canned goods from New York to San Francisco was 90 cents per 100 pounds. Under the ruling of the Commission, carriers were entitled to charge 25 per cent more to Reno from New York than to San Francisco from New York, or a rate of 112.5 cents, and an excess over the terminal rate of 22.5 cents. The carriers desired the privilege of reducing

the 90-cent rate to 75 cents without affecting the intermediate rate. But the Commission said no—if the through rate fell to 75 cents, it was of the opinion that the intermediate rate should come down too, and be made by adding an arbitrary of 35 cents to the terminal of 75 cents, or a total of 110 cents. Under the carriers' plan the difference between terminal and intermediate rate would have increased from 22.5 cents to 37.5 cents. Under the Commission's rule the difference could not exceed 35 cents. This was better for the carriers, it is true, than the construction of the intermediate rate by the addition of 25 per cent of the new terminal, which would have yielded 93.75 cents, but gave a lower revenue than the carriers desired.

The second group was composed of towns which normally used rates made by combination on the terminals, to which the Commission applied the name of "back-haul territory." These towns, said the Commission, were affected by the competition of Coast terminal cities to a greater degree than were points farther east. There was ground for contending that for this reason they were entitled to a different basis of rate making, which would enable them in some degree to compete with Coast cities. In terms of rates, the Commission held that it would be proper to make rates to back-haul points by adding to the full rates to the terminals, arbitraries varying with distance, but not exceeding 75 per cent of the local rate from the nearest terminal, the aggregate not to exceed the maximum prescribed from intermediate points. This improved somewhat the position of towns relatively far from the Pacific terminals, but probably will have but slight effect so far as the others are concerned.

It thus appears that the opening of the Canal had three results: (1) a considerable reduction in railroad rates; the rate on canned goods, westbound, fell from 80 cents and 90 cents to 75 cents; that on dry goods from \$1.00 and \$1.10, carload lot, to 90 cents; that on bar iron from 80 cents to 55 cents, and so on down the line; (2) a reduction in the number of terminal points from the 182 named in the San Jose complaint to 18; (3) a limitation upon the rates to intermediate points designed, by and large, to make the relation of rates correspond more closely to the real facts of water competition.

This meant, of course, a considerable improvement in the position of the cities which retained terminal rates. San Francisco,

in particular, is jubilant. There is some question, moreover, whether the new westbound rates will prove sufficiently low to hold much of the terminal business from the water; and, unless they do, further reductions are likely to occur. Indeed, the carriers are already applying to the Interstate Commerce Commission for permission to make further reductions—an application which is being vigorously resisted by the water lines. It may also be observed that the westbound rates are higher than rates quoted eastbound on a certain number of articles since the Canal opened. In March, 1915, the Interstate Commerce Commission granted to the Southern Pacific permission to reduce eastbound rates on asphaltum, barley, beans, and canned goods from San Francisco, San Pedro, and Wilmington to Atlantic Coast ports to 40 cents per 100 pounds. The previous rates had been as follows: asphaltum, 50 cents; barley, 70 cents; beans, 85 cents; canned goods other than salmon, 85 cents; canned salmon, 70 cents. A high minimum carload of 80,000 pounds was provided, and rates to intermediate western points were made by combination of the local with the rate to the port. Subsequently the Transcontinental Freight Bureau published rates to Chicago on the same articles, except barley, which ranged from 50 cents on asphaltum to 75 cents on beans. There is nothing in the westbound tariff which can be compared with the 40-cent rate except the rate on coal. Yet not even the eastbound rates approach what good authorities believe are possible upon the sea. Professor Hutchinson estimates that a 3,000-ton 10-knot steamer can be run between San Francisco and New York at a cost of \$3.51 per cargo ton, or 17.5 cents per 100 pounds. The Robert Dollar Company is reported to have contracted to carry a shipload of lumber from Vancouver, British Columbia, to Toronto, Ontario, for a freight charge of \$6.00 per 1,000 feet, equivalent roughly to \$3.60 per ton. It has been maintained that costs of operation as low as \$2.00 per ton between San Francisco and New York are possible to modern freighters equipped with Diesel engines.

On the other hand, it must, of course, be recognized that the rail carriers have peculiar advantages on their side. The first point usually alluded to is that of time. The Southern Pacific's schedule time on fruit to New York is 16 or 17 days. On beans, I

am informed that the schedule calls for 13 days. The American-Hawaiian boats take 22 days. Shippers will certainly sometimes prefer quick service to a very considerable concession in rates, particularly when the freight rate is small compared to the selling price of the goods. Yet the difference in the schedule times by rail and by water are slight, and steamers are not subject to the delays which may overtake all-rail shipments in the congested yards of Chicago and Buffalo, or in the occasionally snowbound, flood-swept territory of the Middle and Far West. One month with another, it would be unsafe to expect shipments of miscellaneous merchandise from the East by rail in less than three weeks, and they often take five weeks or longer. This is not so good a service as that given by the boat.

Other advantages of the rail route are the fewer handlings which the freight receives, the convenience of spur and industrial track facilities, the possibility of diversion after the freight has left the point of origin, and the greater abundance of equipment for refrigeration. The bare partial enumeration of such matters is persuasive that some transcontinental traffic will move by rail independent of the rate within wide limits. I strongly doubt, however, if this will be true of business both originating at, and destined to, seaboard towns. The battleground will be the interior of the continent, and the outcome will be influenced by decisions of the carriers upon large questions of railroad policy. Certainly no information is yet at hand which makes confident prediction on these points possible.

Traffic via the Panama Canal has had the important result of making certain and obvious the truth of the assumptions of water competition upon which the transcontinental rate system rests. That system now seems likely to be permanent. At the same time the new business has promoted a more precise and accurate recognition of the limitations of water competition, both in respect to commodities and in respect to towns affected. This will tend toward stability in rate relations. It is apparent that the Pacific Coast has already realized some of the advantages incidental to the opening of the waterway, in spite of the abnormal conditions which have prevented full utilization of the Canal.

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